

April 12, 2005

The Honorable William H. Donaldson
Chairman
U.S. Securities and Exchange Commission
450 Fifth Street, NW, Room 6000
Washington, DC 20549

Dear Mr. Chairman:

As you know, the House Financial Services Capital Markets Subcommittee is very interested in the activities of U.S. Securities and Exchange Commission regarding Nationally Recognized Statistical Rating Organizations. Accordingly, to facilitate possible legislative action on these matters in the 109th Congress, this letter requests your technical assistance in providing greater detail about the specific statutory authorities that the Commission may need to improve regulatory oversight of all credit-rating institutions generally and nationally recognized agencies specifically.

Like many of my colleagues, I want to ensure that rating agencies operate effectively, efficiently, and ethically, in order to ensure that Americans understand the real credit risks of their investments. In your recent testimony before the Senate Banking Committee you also noted that “a well-thought-out regulatory regime could provide significant benefits [for investors] in such areas as record-keeping and addressing conflicts of interest in the industry.” I agree with these assessments.

You additionally indicated in this testimony that “legislation may be needed” in this area, even if the Commission and the nationally recognized rating agencies do develop and implement a voluntary framework to improve industry oversight. You further commented that the Commission “would stand ready to work with Congress on crafting appropriate legislation if Congress determines that such legislation is necessary.”

As you know, I have previously called on the Commission to take “prompt and prudent action” to address long-lingering questions related to the supervision of credit-rating agencies. Based on your recent comments before the Senate Banking Committee, several similar public statements made by other senior officials at the Commission, and the limited, but useful, regulatory proposal recently released by the Commission, I have concluded that it is now time to ask what specific legal authority would be needed to effectively oversee rating agencies. Consistent with all applicable law and regulation, I would therefore appreciate receiving your

technical assistance in providing draft legislative language that Congress could use if it ultimately determined that it was appropriate to create a comprehensive oversight regime for credit-rating agencies.

Obtaining your insights at this time will help us in crafting an appropriately balanced piece of legislation should we decide to take action on these matters during the 109th Congress. Learning of your views now on any needed statutory enhancements will additionally help us to expedite future legislative action if the voluntary framework negotiations should break down or result in a flawed product. It will also ensure that we address First Amendment considerations, legal precedents, and the specific issues raised in the two concept releases previously issued on these matters.

In addition to providing technical assistance, please continue to keep me informed of the Commission's progress with respect its recent rule proposal related to Nationally Recognized Statistical Rating Organizations and its negotiations with interested parties over a voluntary framework. As for myself, I have not yet concluded the most appropriate way to resolve this problem. It is nonetheless my expectation that the Commission and Congress will eventually act in a way that protects investors without imposing unnecessary regulatory burdens on the securities industry.

In closing, I look forward to receiving your response and request that it be forwarded to my office by June 6, 2005.

Sincerely,

/s/

Paul E. Kanjorski
Member of Congress

PEK/tmh